APPENDIX A

Department of Natural Resources
Asset Acquisition and Disposal Criteria

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Evaluating Property for Acquisition

Identified below are the preferred characteristics for the varied property types managed by the department. When evaluating acquisitions (either through purchase or exchange) it is important to look at all the potential uses a property may have, current and future.

For the upland revenue trusts, the focus will be on forest, agricultural and commercial property. Desirable properties for trust ownership need to meet some or all of the criteria. Those lacking in more than one of the characteristics may be considered for disposition.

The primary basis for this guidance criteria is a collection of past work conducted by various ad hoc committees and planning groups whose work was summarized in the report dated April 4, 2001, by Gretchen Nicholas, Business Systems Support Division Manager. Most recently, SE Region has contributed suggestions arising from the development of the region's asset inventory and assessment report.

A. Forest Land Characteristics

1. *LOCATION*

   a. Throughout Washington State; however, the investment focus will be west of the Cascades.

   b. Should block up with existing state lands or be a manageable size if separated.

   c. Should have physical and legal access, and be near transportation networks.

   d. Surrounding or adjacent land uses should be compatible with forest management activities.

   e. Properties should generally be located in those areas designated in the county comprehensive land use plan as Forest Lands of Long-Term Commercial Significance.

2. *PHYSICAL CONDITION*

   a. Forest Soils Class index should be Class I, II, III. Site Class IV or V might be included when justified by economic or other considerations.

b. In eastern Washington, preferred forest properties will be in areas of 30 inches or more annual precipitation and soil depths of at least 40 inches.

c. Properties with soils that show an economic return with fertilization are desirable.

d. Terrain should be suitable for ground-based or tracked harvesting equipment (operability codes 1, 2, or 3). Slopes should have a low landslide potential (slope stability codes 1, 2, or 3).

e. Purchased properties should generally be bare land or have non-merchantable young trees.

f. Avoid acquiring forest land in areas that historically have had extensive root disease, and areas with insect control problems.

3. *FINANCIAL*

a. Properties should meet investment return requirements (5 percent or greater return); analyses are conducted using 60-200 year investment cycles.

b. The purchase price or exchange value should take short and long-term management costs and requirements into consideration, such as anticipated silvicultural activities, road construction and logging.

4. *SOCIAL/POLITICAL*

a. Acquisitions in counties where local government supports forestland purchases by the state are desirable.

b. Consider the public use impacts of any acquisition.

B. Agricultural Land Characteristics

1. *LOCATION*

a. Throughout Washington State; however, the investment focus will be east of the Cascades. Preferred properties will be located in strong established diverse agricultural areas.

b. Preferably in traditional markets or products that experience long-term economic stability and growth. Speculative markets or products will generally be avoided.

c. Properties should have physical and legal access, and be near transportation networks.

d. Surrounding land uses should be compatible with agricultural land management activities.

e. Local comprehensive plans should allow for the current and/or intended use(s).

2. *PHYSICAL CONDITION*

a. Large enough to be farmed economically and managed efficiently. Economic farm size is dependent upon the preferred crops and nature of existing land-uses and infrastructure; minimum size may range from less than one hundred acres to several hundred acres.

b. Properties should be sufficiently productive to attract desirable lessees. Soil, climate and market factors need to combine to produce reasonable returns, both to the lessees and to the trusts.

c. Soils should be high quality and productive for current or intended land use(s) as documented by the Natural Resource Conservation Service and Cooperative Extension.

d. Soils should have good drainage capability.

Applies to irrigated farming:

e. Preferred properties are served by a self-contained, independent (certificated/permitted) water source and delivery system(s), or located in an irrigation district that, in either case, can be managed and leased as an independent unit.

f. Water quantity and quality shall be sufficient to irrigate current and intended crops and acres. Areas of declining water tables will be avoided.

g. Property should be capable of producing a variety of crops.

Applies to dry land farming:

h. Preference will be given to lands located in zones of 12 inches or more of annual precipitation, and be capable of producing annual crops.

i. Areas of stable soils that are highly productive and have low soil erosion potential from usual and customary tillage practices are preferred.

Applies to rangelands:

j. Preference will be given to areas of healthy plant communities, less subject to noxious weeds, and sufficient vegetative cover to resist the invasion of noxious weeds.

k. Properties should have (or have access to) stock water and water rights.

l. Properties should have multiple use potential, and the ability to be used for alternative purposes such as alternative power generation, recreation, wildlife habitat, mineral extraction, oil and gas leasing, irrigated agriculture, communication sites, commercial or higher and better use development.

m. Properties should block up existing state ownership and facilitate management, access, and program objectives.

3. *FINANCIAL*

a. Stability of production. The ability to predictably produce crops under a variety of weather patterns is important.

b. Diversity of holdings. Properties in diverse agricultural communities, precipitation zones, agrarian infrastructures, and commodity markets generally reduce market risk and variation in annual returns.

c. Initial capitalization rates and internal rate of return should be commensurate with the land use.

d. Strong demand by multiple markets, lessees, and end users. The ability to attract an adequate bidding pool is important.

e. Risk needs to be commensurate with probable returns. There is a traditional relationship between returns and risk. Given the long-term nature of the trusts and the common law duties of a trustee, the department avoids high risk transactions.

4. *SOCIAL/POLITICAL*

a. Acquisitions in counties where local government and agrarian infrastructure providers (e.g., irrigation districts) support non-forest land purchases by the state are desirable.

b. Consider the public use impacts of any acquisition.

C. Commercial Property Characteristics

The goals of acquiring commercial real estate include the potential for an attractive income stream and achieving diversification in a portfolio dominated by timber investments. Objectives include:

1. Acquiring institutional grade investments that will generate stable, current income with low to moderate levels of risk. (Given the long-term nature of the trusts and the common law duties of a trustee, the department avoids high risk transactions.)

2. Forms of investments considered:
   a. Fee acquisition of real estate subject to long-term unsubordinated ground leases on which the lessee has constructed quality improvements, with rents net of expenses;

   b. Fee acquisition of improved real estate subject to master leases, with rents net of expenses;

   c. Purchase and lease-back of improved real estate (may involve ground only or entire project); and

   d. Fee acquisition of improved real estate: office, retail, and commercial or industrial buildings.

3. Forms of investments generally avoided: (1) single or multi-family residential ground leasing investments; (2) single or multi-family complexes; (3) out-of-state investments and (4) high-risk or tracts with high management costs.

4. With few exceptions, investments are on improved properties which are superiorly located, well-constructed, maintained to the highest standards, have limited management requirements or a demonstrated track record of successful management in the past, and have the potential for conversion to other uses (i.e., building with single-tenant user converts easily to multiple-tenant configuration) where appropriate.

5. Investment decisions are evaluated considering the reliability of the income stream and the financial rate of return, tenant credit history, and the use the tenant/lessee is making of the property, as well as fundamental real estate criteria such as location, occupancy trends, supply conditions, consistency with land-use planning, zoning, etc.

   a. Single-tenant properties should generally have a tenant/lessee with a strong balance sheet and sound credit rating reported by established credit bureaus. Multi-tenanted properties should generally have a favorable percentage of tenants with good credit ratings.

   b. Properties with lessees/tenants who generate or handle hazardous substances should generally be avoided.

D. Aquatic Lands Characteristics

1. Property to be acquired through purchase or exchange must provide at least one of the following benefits:

   a. Be or abut a critical or an essential habitat and/or wildlife refuge

   b. Be beneficial to sediment transport and/or nearshore habitat, as identified by the national Marine Fisheries Services, state natural resource management agency(s), or the US Department of Fish and Wildlife.

   c. Abut an upland parcel with public upland ownership, easements, or some other formalized agreement that would allow direct public use of and access to the water.

   d. Be actively used or abut parcel(s) actively used for water-dependent uses or allow for water dependent use.

   e. Contain a historic or archaeological property listed on or eligible to be listed on the National Register of Historic Places.

   f. Generate or have the potential to generate higher revenues than the parcel being transferred out of state ownership in a manner consistent with the

benefits listed in RCW 79.90.455.

2. The proposed transaction must benefit or have no negative impact on:

   a. Navigation.

   b. The diversity and health of the local environment including the production and utilization of renewable resources.

   c. The quantity and quality of public access to the waterfront.

   d. Treaty rights of federally recognized tribes.

3. The following issues must also be considered:

   a. The relative proximity of the tidelands or shorelands to be acquired or exchanged to other state-owned shorelands or tidelands; and

   b. The cumulative impacts of similar transactions on water dependent uses, nonrenewable and renewable natural resources, and total aquatic lands acreage managed by the department.

E. Natural Areas Characteristics

When evaluating property acquisitions and disposals, consider the potential for including properties in either future or existing natural areas. Site criteria is defined in RCW 79.70, RCW 79.71, and in the Natural Heritage Plan. Key elements are summarized below:

1. Site identification criteria for Natural Area Preserves includes evaluating the rarity, ecological quality, threats, adequacy of existing protection, protection potential and taxonomy of Washington's flora and fauna.

   a. Highest priority for protection is given to plant species; communities or ecosystems with the greatest jeopardy of destruction or extinction and that typically have little or no representation in protected areas.

   b. Second priority is given to plant species, communities or ecosystems not in as much danger of imminent destruction, but that typically have little or no representation in existing protected areas.

   c. Third priority is given to plant species, communities or ecosystems not in immediate jeopardy of destruction, but that are significant components of the state's natural heritage and require formal protection to ensure future viability.

2. Site identification criteria for Natural Resources Conservation Areas is defined in RCW 79.91.020 as:

a. Lands with high priority for conservation, natural systems, wildlife, and low-impact public use values

b. Areas with flora, fauna, geological, archeological, scenic, or similar natural features of statewide significance

c. Examples of native ecological communities

d. Environmentally significant sites threatened with conversion to incompatible or ecologically irreversible uses.

3. Prioritization of funding requests for natural areas and of pursuing acquisitions once funding is received is based on the following:

a. Willing sellers
b. Property under imminent threat of conversion

c. Property already on the market, or ready to be marketed

d. Ecological importance

e. Management considerations

f. Community considerations

g. Appropriate public use opportunities (for NRCAs)

h. Available funding

Evaluating Property for Disposal

Disposing of upland assets through either sale, transfer, or exchange must result in a net benefit to the trusts or other asset categories involved, either through replacing properties that produce little or no benefits, or through eliminating management cost and risk that outweigh benefits.

The following criteria for disposal are divided into two categories: (1) criteria for determining whether properties should be disposed of, and (2) determining the timing of the disposal.

1. Upland properties may be considered for disposal if any of the following criteria apply:

a. Parcel has low income-generating potential and limited multiple land use(s). not leasable, poor physical attributes, has external constraints to managing for H&B use).

b. Parcel has low appreciation potential.

c. Parcel management costs are high in comparison to actual or potential returns and/or appreciation potential.

d. Parcel carries risks that could result in lawsuits or other high-cost actions.

e. Significant environmental risks are present, such as hazardous waste or environmentally sensitive attributes.

f. Present potential use(s) are not consistent with asset stewardship or portfolio goals (e.g., property is zoned residential under GMA).

g. Parcel is involved in a trespass or condemnation action.

h. Parcel is designated or zoned residential in a city/county comprehensive land use plan.

i. Parcel is an in-holding within another major landowner's ownership, or is a small, isolated tract.

2. Properties may be prepared for disposal when they have achieved a reasonably high (optimal) asset value and when the parcel meets one or more of the following criteria:

a. A willing buyer is available (either private or public sector).

b. The local real estate market is (or will be) at a high level for the type of property being considered.

c. Parcel has high holding costs, particularly those associated with liability or other risk (i.e., disposal becomes an "emergency").

d. All issues preventing cost effective disposal of a nominated parcel are resolved (e.g., encumbrances and other title issues, property enhancements, zoning).